

House Bill 1579
North Dakota Retirement and Investment Office (RIO)
Testimony before Senate Energy and Natural Resources
Senator Dale Patten, Chair

Jodi Smith – Interim Executive Director
Scott Anderson, CFA, MBA – Chief Investment Officer

I. RIO Statutory Authority and Responsibilities

The Retirement and Investment Office (RIO) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the State Investment Board (SIB) and Teachers' Fund for Retirement (TFFR) programs. RIO's statutory authority is found in North Dakota Century Code (NDCC) chapter 54-52.5.

The SIB was created by the 1963 Legislative Assembly to invest five funds: State bonding fund; Teachers' insurance and retirement fund; State fire and tornado fund; Workmen's compensation fund; and Highway patrolmen's retirement fund. The SIB's statutory authority is found in NDCC chapter 21-10.

The TFFR was created in 1913 to provide retirement income to North Dakota public school educators. It is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. NDCC Chapter 15-39-1 contains the statutory language governing TFFR. It is supplemented by Title 82 of the North Dakota Administrative Code.

II. LEGACY FUND OVERVIEW

The **North Dakota Legacy Fund** was established in 2010 following the passage of a constitutional amendment approved by North Dakota voters. The fund was created to ensure that a portion of the state's tax revenues from oil and gas production would be set aside for the long-term benefit of North Dakotans, securing financial stability for future generations.

The Legacy Fund operates as a sovereign wealth fund, receiving 30% of all oil and gas tax revenues collected in the state. It serves as a strategic financial resource for the state, generating investment earnings that can be utilized for various purposes including legislative appropriations, infrastructure investments, economic diversification initiatives, and maintaining financial reserves to mitigate economic downturns.

The Legacy Fund is overseen by the Legacy and Budget Stabilization Fund Advisory Board (Advisory Board) whose duty is to recommend for the investment of funds to

present to the SIB. The SIB governs investment decisions regarding the fund, ensuring that assets are allocated prudently across diverse asset classes to maximize long-term returns while managing risk.

Additionally, NDCC § 54-03-35 states, the Advisory Board is to review any legislative, initiated, or referred measure for asset allocation and investment policy affecting the legacy fund for purposes of requesting the RIO arrange for the preparation and submission of a cost-benefit analysis. The Advisory Committee consists of:

- Senator Jerry Klein, chairman
- Representative Glenn Bosch, vice chairman
- Representative Keith Kempenich
- Representative Jonathan Warrey
- Senator Kathy Hogan
- Senator Scott Meyer
- State Treasurer Thomas Beadle
- Tax Commissioner Brian Kroshus
- Bank of North Dakota President Don Morgan
- Office of Management and Budget Director Joe Morrissette

Adopted in July of 2023, the asset allocation the Advisory Board selected for the Legacy Fund aims to accelerate the fund's growth, generate higher returns, and provide more predictable earnings for long-term benefits to the state's citizens.

During the **2023-2025 biennium**, the Legacy Fund generated **\$601 million in earnings**. At the end of the biennium, these fund earnings will be transferred to the state's general fund.

As of August 31, 2024, the Legacy Fund had a balance of \$11.4 billion and had returned 9.3 percent for the year to date, a full 60 basis points above the 8.7 percent benchmark.

III. IN-STATE INVESTMENT PROGRAM

In 2021, state legislation established an In-State Investment program requiring a portion of Legacy Fund assets be invested in North Dakota and empowering the SIB, as advised by the Advisory Board, to administer the program. Since the program's inception, more than **\$450 million** has been committed to 40 North Dakota businesses and communities. (See attached document for an illustration these in-state investments.)

Among the fixed-income investments reported, more than \$311 million has been committed through Bank of North Dakota's Match Loan Program funding 9 loans used to attract and retain companies with investment-grade ratings by offering financing at below-prime interest rates. An additional \$50 million is invested through the bank's Infrastructure Revolving Loan Fund supporting 11 loans to political subdivisions by providing affordable financing for infrastructure projects, most frequently road improvements.

Through the North Dakota Growth Fund, which is managed by 50 South Capital, the Legacy Fund supports the development of the state's entrepreneurial ecosystem by making private equity and venture capital investments with a strong risk-adjusted return potential. Twenty North Dakota businesses are reported to have received \$89 million in funding commitments.

To tap additional in-state opportunities, the SIB will add another investment manager to the program's roster later this year.

The proposed amendment will be added to the following portion of the century code:

21-10-11. Legacy and budget stabilization fund advisory board.

1. The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board.

2. The goal of investment for the legacy fund is principal preservation and growth while maximizing total return for an appropriate level of risk and to provide a direct benefit to the state by investing a portion of the principal in the state. Preference must be given to qualified investment firms and financial institutions with a presence in the state for investment of the legacy fund.

3. The board shall determine the asset allocation for the investment of the principal of the legacy fund including:

a. A target allocation of seven hundred million dollars to fixed income investments within the state, including:

(1) Up to one hundred fifty million dollars for infrastructure loans to political subdivisions under section 6-09-49.1. The net return to the legacy fund under this paragraph must be fixed at a target rate of one and one-half percent;

(2) A minimum of four hundred million dollars for the Bank of North Dakota's certificate of deposit match program with an interest rate fixed at the equivalent yield of United States treasury bonds having the same term, up to a maximum term of twenty years; and

(3) Other qualified fixed income investments within the state based on guidelines developed by the legacy and budget stabilization fund advisory board.

b. A target allocation of six hundred million dollars to equity investments in the state, including:

(1) Investments in one or more equity funds, venture capital funds, or alternative investment funds with a primary strategy of investing in emerging or expanding companies in the state. Equity investments under this paragraph must:

(a) Be managed by qualified investment firms, financial institutions, or equity funds which have a strategy to invest in qualified companies operating or seeking to operate in the state and which have a direct connection to the state; and

(b) Have a benchmark investment return equal to the five-year average net return for the legacy fund, excluding in-state investments; and

(2) Other eligible investments under this subdivision based on guidelines developed by the legacy and budget stabilization fund advisory board. The legacy fund may be invested in large-scale infrastructure projects under paragraph 2 of subdivision b of subsection 3 when deemed beneficial to the state. The legacy fund advisory board and state investment board shall prudently diversify the investments of the legacy fund unless the boards reasonably determine that, because of special circumstances, the purposes of the state are better served without diversification of the legacy fund investments.

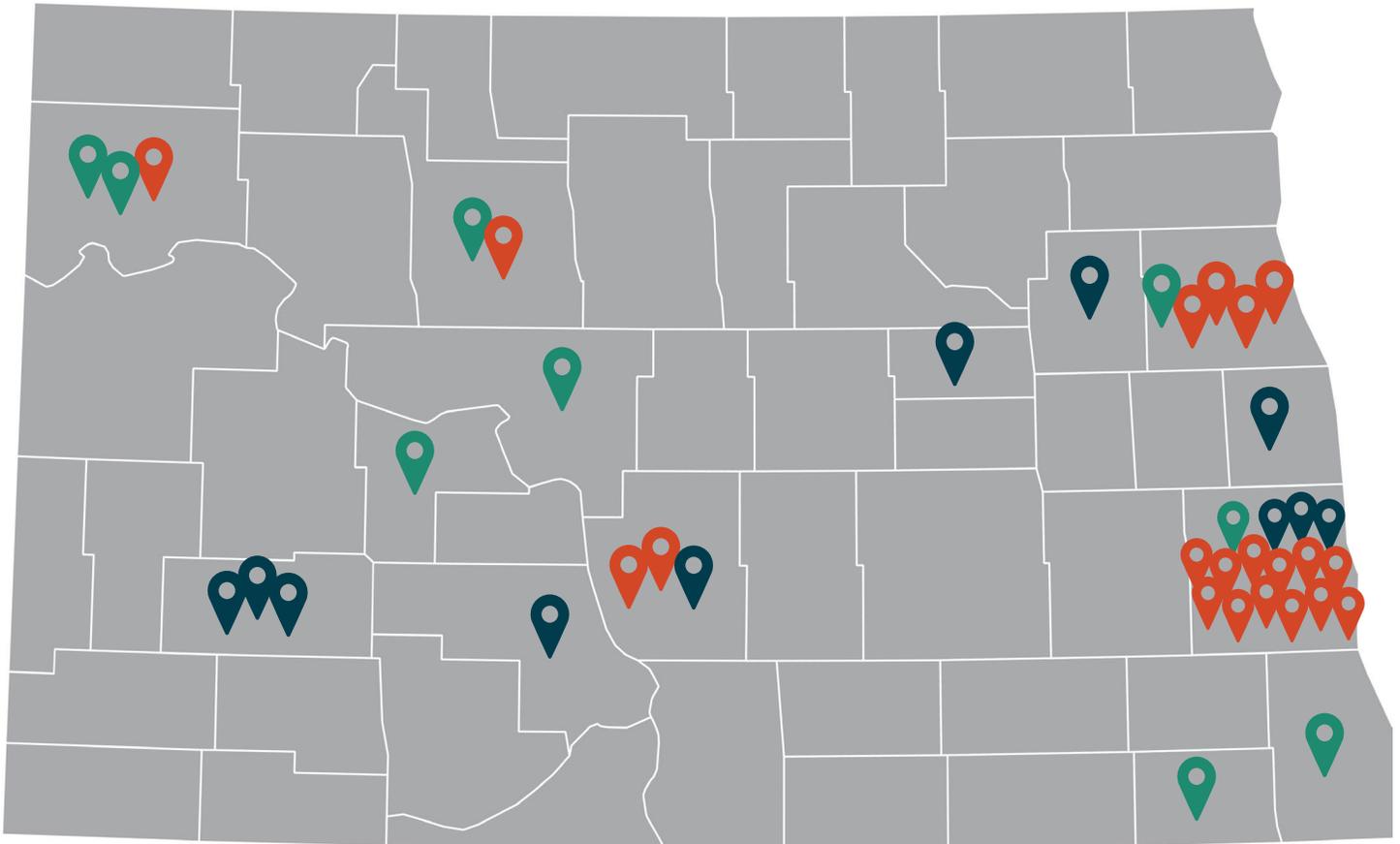
IV. Summary

In summary, RIO supports HB 1579, which proposes amendments to section 21-10-11 of the North Dakota Century Code under paragraph 2 of subdivision b of subsection 3. Approving the amendment will allow the Legacy and Budget Stabilization Fund Advisory Board and the State Investment Board to invest in large-scale infrastructure projects within the State of North Dakota.

Legacy Fund's In-state Investment Program

In 2021, state legislation established an In-state Investment program requiring a portion of Legacy Fund assets be invested in North Dakota and empowering the State Investment Board, as advised by the Legacy and Budget Stabilization Fund Advisory Board, to administer the program.

As of 06/30/2024, more than \$450 million is invested in or committed to 40 North Dakota businesses or communities.



Investment Locations

 **BND Match Loans**
\$311,051,165 in Fixed Income.
9 Investments Statewide.

 **BND Infrastructure Loans**
\$50,059,095 in Fixed Income.
11 Investments Statewide.

 **North Dakota Growth Fund**
\$89,000,000 in Private Equity
commitments, \$49,344,389 net asset
value. 20 Investments Statewide.

NDGF Portfolio – Underlying North Dakota Companies
 As of June 30, 2024

 AETHERO	Grand Forks	 Homeland Hempcrete <small>Homes Built Better.</small>	Bismarck
 BUSHEL	Fargo	 MIDLAND TM GARAGE DOOR MFG CO	West Fargo
 Chipp	Fargo	 PAVEWISE	Bismarck
 COCO coders	Fargo	 re lease	Fargo
 Crusoe	Williston	 RxE2 [®]	Fargo
 Detect Auto	Fargo	 soiltech [®]	Fargo
 devii	Fargo	 Snowbird	Minot
 Edgewood Healthcare	Grand Forks	 thread <small>AUTONOMOUS INSPECTION</small>	Grand Forks
FARMENTED FOODS	Fargo	 tugboat	Grand Forks
 gener AI	Fargo	 WalkWise	Fargo